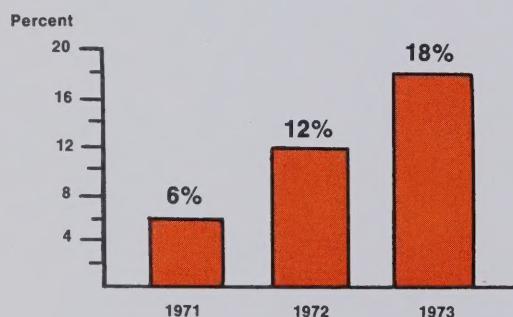
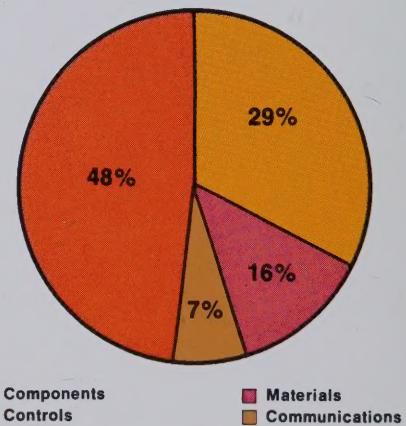




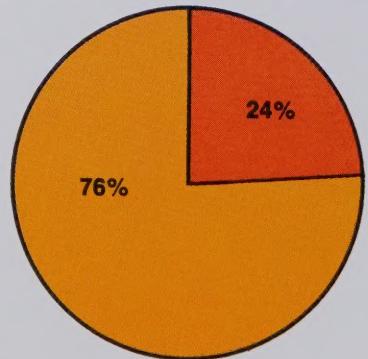
Return on Shareholders' Investment



1973 Sales by Markets



1973 Domestic and International Sales



Domestic Sales
International Sales

Year-End Backlog



1973 HIGHLIGHTS

	1973	1972
Net Sales	\$117,983,983	\$97,231,396
Income Before Income Taxes and Extraordinary Item	\$ 8,292,208	\$ 4,803,415
Provision for Income Taxes	\$ 3,851,000	\$ 2,080,000
Income Before Extraordinary Item	\$ 4,441,208	\$ 2,723,415
Extraordinary Item	\$ 408,000	\$ 274,734
Net Income	\$ 4,849,208	\$ 2,998,149
Per Common Share*	\$2.75	\$1.62
Average Common Shares Outstanding	1,638,523	1,638,346
Cash Dividends Paid—Common Stock	\$ 524,326	\$ 294,900
Per Common Share	\$.32	\$.18
Shareholders' Investment	\$ 30,649,233	\$26,670,901
Number of Shareholders	4,543	4,490
Number of Employees	9,584	8,455

*Pro-forma net income per common share assuming full conversion of stock options, debentures and preferred stock would be \$2.40 for 1973 and \$1.48 for 1972.

To Our Shareholders:

Record sales, record earnings, and a record high in return on shareholders' investment made 1973 the best year Oak has ever had.

Sales for the year were \$117,983,983, a 21 percent improvement over 1972 sales. Besides setting a new high, this sales performance represents the first time our volume has exceeded the \$100 million mark.

Net earnings in 1973 were \$4,849,208, an increase of 62 percent over earnings the previous year. Per share earnings were \$2.75 compared to \$1.62 in 1972.

Return On Shareholders' Investment

We believe it is essential to measure our profit performance not only by earnings per share but also by return on shareholders' investment. In 1971 we set a target of 12 percent return. We reached this target in 1972, and then raised our target to 14 percent. In 1973 we exceeded our objective, obtaining a return of 18 percent. Our new objective is a 20 percent return on shareholders' investment.

Successful Diversification

Our 1973 results indicate the success of our diversification program over the last several years. Our diversification policy has as its objectives a reduction in dependence on the electronics components market and establishment of new courses for corporate growth. Our progress can be seen from the table below, which compares sales in our four major markets over the past four years.

	1973	1972	1971	1970
Components	48%	50%	54%	58%
Controls	29	34	34	32
Materials	16	11	9	10
Communications	7	5	3	0

It should be noted that while sales to the components market have dropped from 58 percent to 48 percent of total sales, the dollar volume of component sales has increased from \$43.4 million to \$56.3 million in the four year period. Our other markets are growing in relation to total sales and also increasing in dollar volume. Thus we are achieving market diversity and overall growth simultaneously.

Concurrent with our desire to obtain better market balance was a decision to eliminate any significant dependence on military markets. This has been accomplished. In 1973 our military sales amounted to less than 4 percent of total sales.

Multinationalism

Oak was a multinational company before "multinationalism" became a catchword. Through acquisition and internal growth we have consistently expanded the scope of our offshore operations, and they have been a vital element in our growth.

In 1973, for example, our offshore operations accounted for 24 percent of total company sales and 38 percent of net earnings. Clearly, our offshore operations contribute substantially, and we have every intention of maintaining our multinational posture.

Other Financial Data

Profit margins in 1973 amounted to 4.1 percent. This compares to 3.1 percent in 1972.

Plant and equipment expenditures for the year were \$6.8 million, compared to \$3.9 million in 1972. Outlays in 1973 were higher than anticipated at the beginning of the year and for the most part reflect accelerated expansion of Materials Group facilities. Approximately 27 percent of 1973 expenditures were for offshore operations.

Our backlog at the end of 1973 stood at \$55.8 million, a record high for the second year. The backlog at year-end 1972 was \$32.1 million.

A Note Of Thanks

It is appropriate here to acknowledge, with deep gratitude, the efforts and dedication of the entire Oak family of 9500 men and women. A record performance could not have been achieved without their enthusiasm and support. Truly, it is *their* record.

Security Operations Sold

In September of 1973 we announced to our shareholders and to the business community that we had sold all our non-equipment related operations in the security and protection field. In our third quarter report to shareholders we stated

that losses resulting from the sale of these operations and operating losses incurred while they were part of Oak had all been accounted for as of the end of the third quarter. For all intents and purposes, we are out of the security business. We had immersed ourselves thoroughly in this market to determine whether or not there was significant potential for Oak. What we found was that the short-term risks involved were too great in relation to uncertain long-term profits.

Dividend Policy

Throughout 1973 the Board maintained a regular quarterly dividend of 8 cents per common share. In light of financing requirements for increased sales, larger inventories necessitated by shortages, and capital expenditures, the Board felt it would be imprudent to deplete cash reserves by increasing dividend payout.

Organizational Changes

In November the Board increased its number of seats to thirteen by electing as a director Raymond W. Peirce, group vice president, Materials. Mr. Peirce has been with Oak since 1961.

At the corporate staff level Bissell J. Smith was named group vice president, Components. Previously he was director of Far East operations and president of Oak Industries Hong Kong Limited. William S. Strout was appointed corporate vice president, procurement. Previously he was vice president, purchasing for the Switch Division.

As announced in our quarterly reports, Robert T. McTigue was named executive vice president, Robert J. Hartney was named vice president, corporate relations, and Frederick C. Rueckert was named vice president, corporate development.

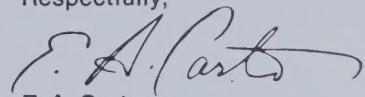
D. M. Henderson was named vice president and general manager of the Switch Division, and James C. Wells was named vice president and general manager of Selectronics Division.

Outlook

With the uncertainty caused by the phasing out of Phase Four, the energy crisis, and the economic troubles of other nations, it is unrealistic to hope that in 1974 we can duplicate the high growth rates realized in 1973. But in light of our backlog, our

incoming order situation, and the pace of operations for the first two months of the year, we have set as our goal achievement of another record year.

Respectfully,



E. A. Carter
Chairman of the Board and
Chief Executive Officer



Frank A. Astrologes
President and
Chief Operating Officer

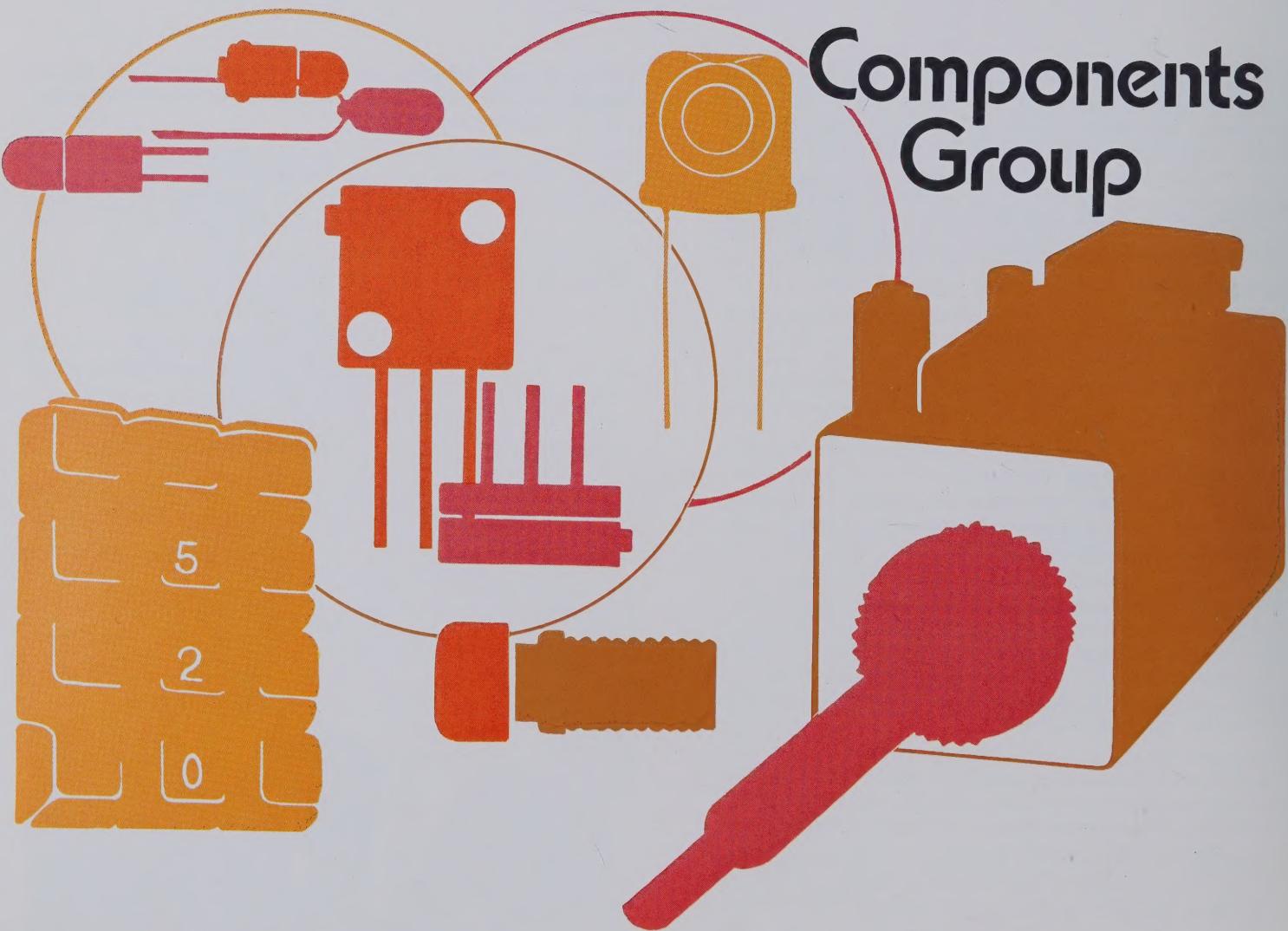
March 15, 1974



E. A. Carter

Frank A. Astrologes

Components Group



Components

Operating results for the Components Group in 1973 showed satisfactory sales and profit growth. Since the group's products are sold in many different markets, this growth reflects the generally healthy condition of the economies of the U. S. and other countries in which our goods are traded.

Switch Division

Crystal Lake, Illinois

Switch Division sales for 1973 were significantly higher than the previous year. Profitability also improved, but was restricted by the necessity for absorbing substantially increased operating costs.

The division continues as the dominant factor in the U. S. rotary switch market and shares significant portions of other switch markets including pushbutton, keyboard, appliance, thumbwheel and slide switches. Other division products are rotary and linear solenoids, vibrators and choppers, and solid state vending controls. These products are used in computers and data processing equipment, test instruments, calculators, home appliances, consumer products, industrial machinery, vending machines and military equipment.

Good acceptance received by new products introduced during the year was a factor in increased sales. Keyboard switch products participated in the booming calculator market, and the division's new solid state vending controls accounted for increased volume in the vending market. New product development continues to be a priority activity.

Increased material costs were, and continue to be, a negative factor in Switch Division operations. A specific example is the increase in prices of precious metals, which rose as much as 100 percent during the year. Silver, gold, platinum and other precious materials are used in switches, and while the quantity used in any one switch is small, the aggregate purchased annually amounts to many thousands of pounds. Due to government price controls, increased costs of these materials had to be absorbed, rather than passed on, and this hurt profitability. The division has several studies underway aimed at reducing the content of precious metals in its products without affecting product reliability or performance.

The labor shortage which affected many parts of the country in 1973 was acute in the Crystal Lake area. This condition

limited output during part of the year. Part-time schedules and customized work shifts helped limit the effects of this problem, as did improvements in production efficiency and transfer of some operations to other Oak locations.

At year-end, the order intake level and backlog were at record highs for the Switch Division.

Selectronics Division

Crystal Lake, Illinois
Kowloon, Hong Kong, B. C. C.
Taipei, Taiwan

Selectronics Division increased sales and profits in 1973.

This division, a major supplier of VHF electromechanical tuners to U. S. television set manufacturers, has its headquarters in Crystal Lake and manufacturing facilities in Hong Kong and Taipei.

Major factors in the sales increase were heavy demand for color TV sets and Selectronics' ability to capitalize on this market with on-time delivery and excellent tuner quality.

New products will be added to the Selectronics Division line in 1974. One is a miniature tuner designed for small black and white television sets built by U. S. companies.

Combination UHF/VHF varactor tuners also will be introduced in 1974. All-electronic tuner systems provide convenience and reliability for the television set user, and we believe the demand for these tuning systems will expand. Pilot runs of the new tuners were completed in 1973, and initial orders for production models are on hand.

To provide manufacturing capacity for new products and growth of conventional lines, the division is planning construction of a second facility in Taipei.

MCCoy Electronics Company

Mt. Holly Springs, Pennsylvania

MCCoy Electronics Company had a record year in 1973. Both sales and profitability were up significantly over 1972 levels.

MCCoy produces high frequency and low frequency crystals, crystal filters, oscillators and other devices for frequency control. These devices are used in communications equipment, computers, guidance control systems, navigation sys-

Components

tems, and military equipment. A current sophisticated application of MCCoy crystals is in the communications system of the Viking Lander, the space probe vehicle which will be launched in 1975 and scheduled to land on Mars on July 4, 1976. MCCoy crystals also are used in crystal wrist watches which provide a digital presentation.

Two phases of an expansion program were carried out by MCCoy in 1973. In mid-year the company purchased the assets of the crystal filter operation of Collins Radio Corporation, Newport Beach, California. These are being transferred to MCCoy's headquarters at Mt. Holly Springs and will be a major contributor to anticipated expansion of crystal and crystal filter sales volume.

Later in the year MCCoy saw construction begin on a new plant it will lease in Mercersburg, Pennsylvania, 50 miles from Mt. Holly Springs. Upon occupancy in 1974 the facility will be used for production of crystals.

New product development is an ongoing activity at MCCoy. In 1973 new product efforts resulted in introduction of new surface wave devices and modifications to several existing products. Current product research is concentrating on developing high frequency crystals with low resistance, and investigation of applications for lithium tantalate, a material with piezo electric characteristics.

In 1974 new product work will benefit from installation of a new shared-time computer with several times the capacity of MCCoy's existing computer. The computer is used extensively in design of crystal filters, oscillators and surface wave devices.

Marco-Oak, Inc.

Anaheim, California

Marco-Oak performed exceedingly well in 1973. Sales were up comfortably over 1972, and profitability improved.

A major occurrence for Marco during the year was the integration into its operation of Los Angeles Miniature Products, Inc. (LAMPS). Thus Marco-Oak now supplies the Marco line of indicator lights and small illuminated switches, and the LAMPS line of miniature and subminiature incandescent lamps.

By consolidating the design, production and marketing activities for these product lines under one management we have improved our current position and our future potential in the illuminated products market.

This market is diverse, consisting of computers and data processing equipment, communications equipment, commercial and military aircraft, office equipment, test equipment, and numerical controls for industrial machinery.

Under the consolidation plan, Oak Industries Hong Kong will become the manufacturing center for LAMPS products. The Hong Kong facility has been manufacturing lamps for some time and is rapidly gaining the production know-how and efficiency to allow it to take on a much higher volume. At the same time, marketing emphasis will be put on the standard LAMPS items which historically have provided the highest profit margins. New product development work will continue, of course, but in conjunction with Marco products so that an integrated marketing approach can be followed.

A good example of this coordinated development is the integral bi-pin T-1 lamp, which has broad application possibilities. It is being designed for use in indicators and lighted pushbuttons made by Marco.

A specific application for the bi-pin T-1 lamp is in a new Marco device named the Marco-Flex switch. The Marco-Flex is a basic alternate action switch mechanism which can be produced in several versions and sizes. Its characteristics of simplicity and low cost should make it a quickly accepted product in several high volume markets.

For some years Marco has manufactured its own line of rotary switches. This product line will be moved to the Switch Division in Crystal Lake in 1974.

Techno-Components Corp.

Van Nuys, California

Techno-Components' sales improved satisfactorily in 1973, but profits were at about the same level as the previous year. The company improved its product line structure and its production capabilities, actions which should provide growth in 1974.

Techno manufactures miniature potentiometers, which are devices used to balance and control electrical circuits. The largest markets for these devices are in communications, data processing and industrial equipment.

As in much of the electronics industry, the trend in potentiometer design has been toward miniaturization. This trend favors Techno, whose skill in designing and manufacturing small units—some of which measure less than one-half inch in any dimension—is well recognized in the field.

Proprietary designs are characteristic of Techno. Examples are the 400 and 700 Series film potentiometers, which incorporate ball bonded terminations, a Techno development. An improved version of these units which allows more precise adjustment of the potentiometer after it is positioned in a printed circuit board is now under development.

O/E/N India Limited

Electrogiri, India

Operations at O/E/N India showed marked improvement in all respects in 1973.

O/E/N India produces a variety of switches, relays and electronic assemblies for the growing industrial market in India, a market which grows as government programs for greater industrialization move forward. The company has applied for government approval to begin production of two additional product lines which offer good potential for growth in export markets as well as domestically.

One aspect of the government's economic policy is its requirement for indigenisation, which has the purpose of establishing a self-sustaining economy. Under this program O/E/N India has consistently increased the quantity of raw materials it receives from local sources (rather than importing) as these materials become available in India. As this process progresses material costs are lowered, and this was an important factor in the good results achieved in 1973.

O/E/N India's research and development program, although still modest at this point, did contribute to the 1973 performance. Improvements which the research department made to the type 67 relay helped this product achieve the highest volume it has had yet.

Over the years O/E/N India has established itself in the Indian business community as a leader in the markets it serves. It has done this by earning a reputation for dependability and quality. We look for a continuation of this spirit of dedication and see continued growth for the company as India itself moves ahead.

Hart Indiana Division

Mishawaka, Indiana

Win-West Plastics Division

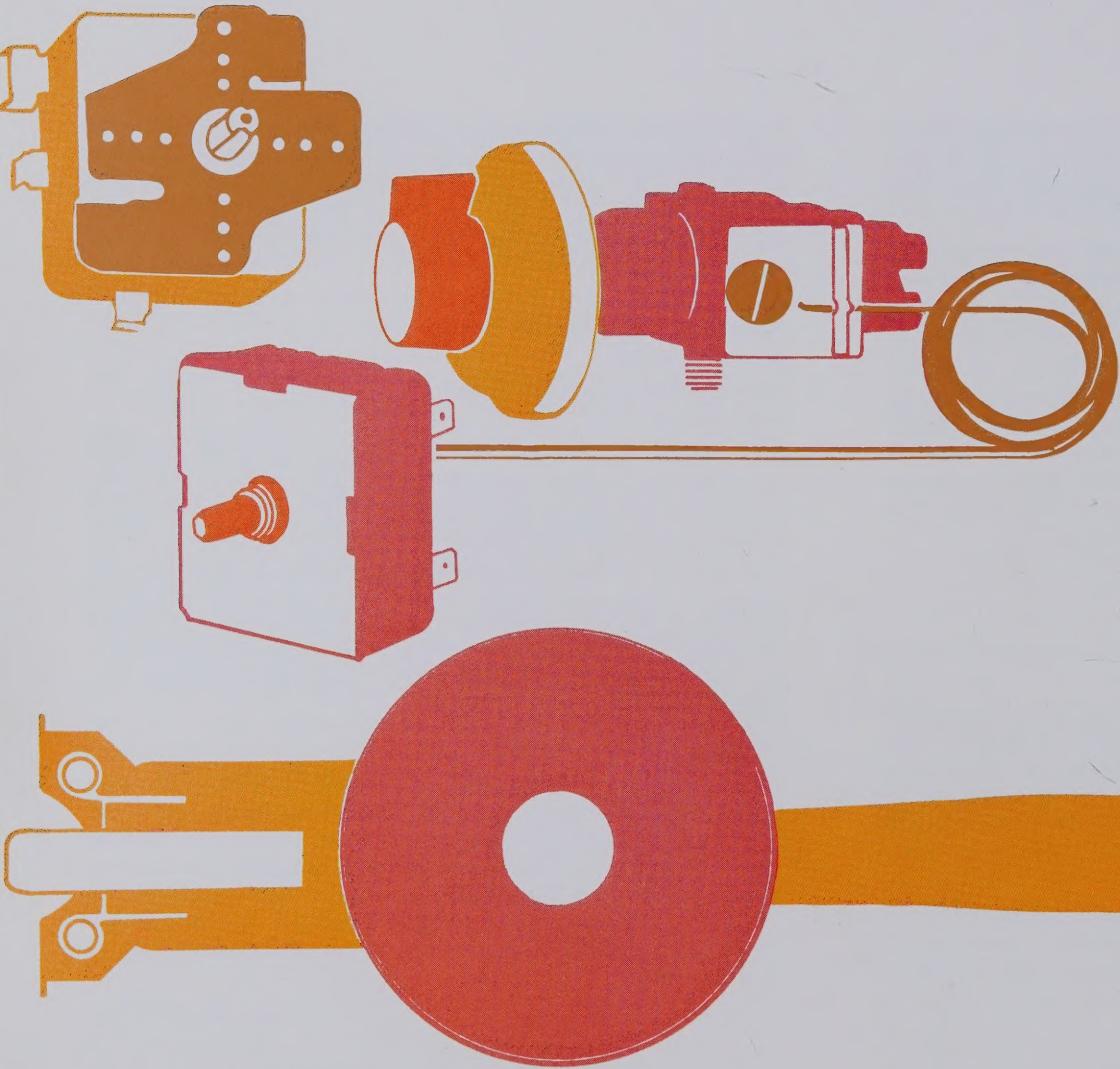
Wauconda, Illinois

Two divisions within the Components Group serve primarily as suppliers to other Oak operations. Hart Indiana produces tools, dies and metal stampings. Win-West Plastics supplies a broad range of thermoplastic and thermoset plastic parts.

The charter of these divisions is to provide their sister companies in Oak with products and services which would be difficult to obtain from other vendors, and to provide quality products to "outside" customers. They have met these obligations admirably and continue to make a worthwhile contribution to Oak's growth.

Outlook

Due to its broad market base Components Group growth is pegged more to expansion of the general economy than other Oak groups which serve more segmented markets. Better-than-average growth will be achieved by greater penetration of its markets, and this is the group's goal. Emphasis will continue to be placed on marketing strategy, development of proprietary products and new product introductions to attain this goal.



Controls
Group

The Controls Group had a modest improvement in volume and earnings in 1973. This group encompasses operations in six countries, and its operating results reflect the diversity of factors this geographical spread implies.

Harper-Wyman Company

Hinsdale, Illinois

Princeton, Illinois

Harper-Wyman Company, the U. S. based controls operation, was directly affected by the energy and consumer credit problems of the U. S. economy in 1973. Sales were slightly below the record level of 1972 and profits were reduced by 25 percent.

Harper-Wyman produces controls and components for electric ranges, gas grills and other domestic appliances, but the major portion of its product mix is in components for domestic and recreational vehicle gas ranges.

For the first six months of 1973 these markets were unusually active, and for that period Harper-Wyman's gas range product sales were the best in the company's history. At mid-year, however, growing public fears of a gasoline shortage produced an abrupt decline in sales of recreational vehicles. This was compounded by a substantial increase in cost of credit for financing recreational vehicle purchases. Many vehicle manufacturers were forced to reduce production to as low as 20 percent of normal.

At the same time concern over the nation's future supply of natural gas, together with high interest rates for home mortgages, caused a reduction in the number of new homes equipped with gas appliances. As a result production of standard domestic gas ranges dropped about 18 percent in the second half of the year.

These dramatic changes in the gas range market combined to reverse in the last six months of the year the high demand for the company's gas components experienced in the first six months. Management responded to this situation with substantial reductions in personnel and expenditures to bring costs in line with the lower volume level.

Although consumer credit restraints are expected to ease in 1974, the gasoline and natural gas situations are still uncer-

tain. Consequently, recreation vehicle production and new home construction are not expected to provide a significant market for gas appliance components in the near future. Fortunately, sales of replacement gas ranges continue at an excellent pace, providing the company with a strong base in its traditional product areas. In addition, the company expects increasing sales of components to electric range manufacturers to more than make up for the reduction in gas component sales. Increased production capacity for electric appliance controls now available at Controlmex, our new Matamoros, Mexico, facility, is a significant factor in this marketing plan. New products to be introduced in 1974 which provide competitive advantages not previously available also will provide new sales opportunities.

Harper-Oak Limited

Aurora, Ontario, Canada

Harper-Oak Limited had a satisfactory increase in sales and profits in 1973.

The company produces thermostats for electric ovens, infinite switches for electric ranges and other electric appliances, and manufactures Oak rotary switches. It also sells in Canada Harper-Wyman gas range components made in the United States.

At year end, Harper-Oak was in a period of transition. Because of production economies available at the new Matamoros plant, production of electric oven thermostats for the U. S. market is being transferred there. This means Harper-Oak must find ways to replace the sales volume lost by this action. To this end a vigorous effort is underway to increase the market penetration of Harper-Oak's present product lines. This effort is being aided by the current expansion of the Canadian electronics industry. A program for initiating manufacture of the Oak Unidex switch at Aurora has been implemented, with start-up scheduled for early 1974. In addition, production will soon be reactivated on several appliance components that were dropped several years ago for lack of sufficient manufacturing capacity.

Controls

Harper-Wyman de Mexico

Mexico, D. F., Mexico

In 1973 Harper-Wyman de Mexico again showed excellent growth in sales and profitability.

This company produces components for gas ranges and other gas appliances, and manufactures a family of valves for LP gas tanks and cylinders.

Considering the problems that business in Mexico had to deal with during the year, the success of Harp-Mex was particularly commendable. Mexico is continuing to enjoy a booming economy, but it is paying the price. During the year inflation reached record levels; just from January to June, the cost of living rose 18 percent. Interest rates for borrowing reached 13 percent. Serious material shortages developed in the third quarter, and in September the government ordered an obligatory 18 percent wage increase.

Growth was achieved in spite of these obstacles. The strong economy presented Harp-Mex with market opportunities it was quick to seize. Capital investments made for production equipment over the past two years have greatly improved the company's ability to provide superior products and service, and this strength was apparent in 1973. A plant expansion during the year provided a new tool room and additional space for manufacturing departments.

Controlmex S. A.

Matamoros, Mexico

Controlmex, located across the border from Brownsville, Texas, began operations in the spring of 1973.

Under the direction of Harper-Wyman personnel, the plant assembles infinite controls, thermostats and flame switches used in gas and electric ranges. In 1974 it is planned to transfer manufacture of the Oak appliance switch line to Matamoros from the Switch Division in Crystal Lake.

This facility will become a valuable addition to Oak's manufacturing capacity. The Matamoros area has an adequate labor supply for future expansion, and the plant's location will be advantageous to other Oak operations in the U. S., Canada and Mexico.

Harper-Wyman de Venezuela

Caracas, Venezuela

Changes occurred at Harper-Wyman de Venezuela in 1973 which improved the company's potential for growth.

A major action, discussed in last year's report, was the sale of all assets, inventories and equipment related to production of products for the LP gas market. This phase of the Harp-Ven operation had been a constant problem, and an already bleak outlook for it became darker when the Venezuelan government announced its intention to take over the oil industry in that country.

Following this divestment, the company sold its forging, die casting and screw machine equipment to a qualified supplier and moved in September from Guarenas to a leased plant in Caracas.

In its new location Harp-Ven is concentrating on manufacture of valves and thermostats for gas ranges and is buying die castings and screw machine parts from Venezuelan sources rather than producing them itself.

These moves have reduced the capital investment in this operation and have positioned the company more realistically for serving the Venezuelan market.

Harper-Wyman Limited

Malvern Link, England

Operating in the turbulent British economy, Harper-Wyman Limited managed to improve its sales over 1972 but was not able to match the profitability of that year.

The company manufactures valves, thermostats and other components for gas ranges.

Labor unrest precipitated by the government's wage and price freeze had a significant effect on Harper-Wyman Limited's operations. Strikes by union workers were prevalent throughout the country, and while none occurred at Harper-Wyman, the firm was hurt by strikes at customer plants.

Adding to this difficulty was a nation-wide downturn in sale of gas appliances in mid-year. Though business began to pick up later in the year, the overall market was below expecta-

tions. What sales improvement the company showed came from a strong effort to improve its market penetration.

As yet, Britain's entry into the European Economic Community has had little effect on the markets served by Harper-Wyman Limited. Unquestionably, however, it provides marketing opportunities for the company in Europe in coming years.

Diamond H Controls Ltd.

Norwich, England

Diamond H Controls, also affected by economic conditions in Britain, had an increase in sales in 1973, with profitability remaining at about the 1972 level.

Diamond H Controls serves the electric range market with energy regulators, thermostats and other components, and serves the capital goods market with switches, relays and a line of crystal products.

The performance of Diamond H reflects economic conditions in England. Government efforts to encourage consumer spending and investment in capital goods were successful, and in many respects Britain enjoyed a booming economy. In particular, increased investment in capital goods had a positive effect on sales of Diamond H switches and relays.

But in the electric range market, imposition by the government of the first value added tax these products have ever had to carry damped the market.

With the expansion in industrial output came labor shortages, and for a good portion of the year Diamond H had to operate with a reduced work force. If more labor had been available, sales and profits would have been higher.

As a means of solving the labor shortage problem, Diamond H is implementing a plan to establish "satellite" assembly operations in plants in smaller towns within a 50 mile radius of the company's headquarters at Norwich. These areas have small pools of labor which could be attracted to the type of factory work Diamond H provides.

Oak Industries South Africa (Pty.) Ltd.

Pietermaritzburg, South Africa

Oak Industries South Africa had a particularly good year in 1973. Sales and profits both rose substantially.

Oak South Africa produces a variety of control devices including thermostats, pilot lights and infinite controls. Major applications for these products are in electric ranges and other electric appliances. The company also manufactures Oak low power rotary switches and relays, sold to the general industrial market. A group of products recently added to the Oak South Africa line includes resistors, transformers and similar products used with electrical equipment.

Early in 1973 the South African economy began to move forward after a static period, creating a demand for consumer products which continued throughout the year. Demand for industrial products did not grow in relation to consumer demand, but this sector of the economy is expected to show improvement in 1974.

Among several new product programs carried out during the year, the most successful was introduction of a rocker switch, a result of the company's research and development activity. Immediate acceptance was won for this switch in the electric range market, and applications for other electric appliances also are being realized. In addition, Oak South Africa is working with the Switch Division in Crystal Lake to develop export possibilities for the rocker switch.

Economic trends developed in 1973 are expected to continue into 1974. For Oak South Africa this should mean further improvement in sales of consumer products and an increase in activity in Oak switches and other industrial products.

Outlook

We look for continuing growth in the Controls Group. We also expect to continue seeing overall results affected by a variety of geographic factors; such is the nature of international operations. The pattern has been for successes and opportunities in some areas to more than compensate for temporary difficulties in other areas; such is the advantage of diversification. Throughout the operations in this group efforts are being made to achieve a more equal balance between consumer products and industrial products; the former category now accounts for a major portion of sales. By achieving a better relationship between these markets, we will eliminate some of the cyclical effects which have been characteristic of the group's operations to date.



Materials Group

Superior growth was achieved by the Materials Group in 1973, with all divisions in the group contributing to an excellent performance.

Fluorglas Division

Hoosick Falls, New York

Fluorglas Division showed significant improvement in profits and sales in 1973.

Products of this division include fiberglass fabrics coated with PTFE (the trade term for polytetrafluoroethylene, a material similar to DuPont's Teflon); pressure sensitive tapes used in the wire and cable industry and in packaging machinery; belting made from fluorglas fabrics, used in such applications as food processing machinery and textile drying equipment; coated fiberglass yarns for the wire and cable industry; extruded electrical tapes, and threadseal tapes and other products for plumbing and maintenance markets.

Fluorglas Division's ability to develop innovative new products is a key reason for its sales growth. In 1973, for example, the division introduced CHEM-THERM®, a glass reinforced tank lining material for corrosion prevention. The unique properties of CHEM-THERM make it an ideal material for lining tanks and containers used in the chemical processing and pulp and paper industries where other linings have failed. Initial acceptance of the product has been promising and sales are expected to grow quickly as qualified applicators are trained.

Another new product, Fluorglas II, a composite film, has been particularly effective in applications where standard industry products have proven inadequate for wear and absorption. This product was successfully market tested in 1973 and will enter regular production in 1974.

During the year Fluorglas Division negotiated an agreement to manufacture and market an intumescence film that has dramatic fire retardant characteristics. Currently this is the only material that meets new safety specifications being formalized by the boating industry for marine fuel lines.

To provide for continuing new product research a new development laboratory was installed at Hoosick Falls. A 42,000 square foot building was purchased to house new manufacturing facilities and provide additional storage area.

While the major portion of Fluorglas product sales are in the

United States, offshore markets have become increasingly important in recent years, particularly in Europe. There the division, through its own European sales manager, has now established 11 distributors for various product lines, and discussions are being held with several European manufacturers with regard to establishing licensing arrangements. Increased sales to Europe are expected in 1974.

Atlantic Laminates Division

Franklin, New Hampshire

Hayward, California

Since Oak acquired Atlantic Laminates in 1970 the division has shown exceptional growth. This pattern was continued in 1973.

Atlantic produces epoxy/glass laminates used in the manufacture of printed circuit boards, and has developed a reputation for technical excellence and superior service.

These qualities were enhanced by three important actions in 1973—purchase of a 63,000 square foot building at Franklin, expansion of its manufacturing operation in Hoosick Falls, and establishment of a new production facility at Hayward, California.

The Franklin building provides space necessary for Atlantic to manufacture its total requirements for pre-impregnated glass cloth, the base raw material for laminates. Substantial future cost savings will be possible through manufacturing rather than purchasing this material, and adequate supplies of pre-preg are assured.

By moving some operations to the new facility, space will be provided in the headquarters plant for installation of automatic press loading and unloading equipment which will improve production capacity. The ten acre site of the purchased building provides adequate land for future expansion.

Enlargement and complete refurbishing of the manufacturing operation at Hoosick Falls will allow manufacture of two products—PTFE/glass laminates, used primarily in microwave stripline circuitry, and multi-layer materials. The increase in manufacturing capacity for multi-layer materials is particularly timely, since this market is growing at a rate of 15 percent annually.

Materials

The Hayward site was selected for its proximity to West Coast customers. Previously some of these customers had been served from the Franklin plant, but the shipping distance involved created service problems. The potential market for this facility can be seen from the fact that within a month after it began production it had an order backlog greater than total sales of Atlantic only three years ago.

Atlantic also began its first expansion into Far East markets. Work was begun to re-fit Oak's plant near Seoul, Korea, for the manufacture of Atlantic products. This plant, used for manufacture of television tuners in the 1960's, will initially produce phenolic/paper laminates. Production is scheduled to begin in mid-1974; orders already on hand indicate the plant will be operating at full capacity.

In another move, first steps have been taken to establish a laminate plant in Taiwan. Present plans call for production start-up in 1975.

Presently there are no laminating facilities in either of these countries.

While the major effort of Atlantic Laminates for the year was the expansion of its facilities to meet present customer requirements, long term new product development was not ignored. Work has been under way for some time on polyimide laminates and PTFE/paper laminates. Products in these categories will be brought to market in 1974.

Other research activities center around development of polyester glass mat laminates and investigation of new resin systems which would reduce dependence on petroleum-based resin materials.

Circuit Materials Division

Princeton, New Jersey

Circuit Materials Division had an excellent year in 1973.

Using a variety of plastic films, metal foils and proprietary adhesive formulations, Circuit Materials produces highly specialized materials used in flexible printed circuits.

The 1973 results reflect the unusually high level of business activity in the flexible circuit market and the boom year experienced by U. S. automobile manufacturers, a major customer for Circuit Materials.

Efforts to improve sales in non-automotive markets were successful; that portion of overall sales volume increased more than 60 percent. A similar program to increase sales in overseas markets also had good results; offshore sales increased 17 percent.

Capital expenditures made in previous years helped the division's 1973 profitability. One program undertaken in 1972, involving major modifications of the division's coating equipment, was responsible for more than \$100,000 of improved profit due to increased production and a decrease in scrap waste.

As a research-oriented company, Circuit Materials gives considerable attention to new product development. A specific effort is being made to increase its capability in the use of rolled copper film and electrodeposited copper film. New equipment was installed during the year in Hoosick Falls for the treatment of rolled copper. It is now operating in the initial run-in stage; early results look most promising.

Tri-Point Industries Division

Commack, New York

In July of 1973 Oak purchased for cash the assets of Tri-Point Industries, a division of American Hoechst Corporation, and made Tri-Point a new division in the Materials Group.

A 20 year old business, Tri-Point manufactures plastic products made from PTFE including rod, tubing, sheet, tape and film, and produces custom parts precision machined to customer specifications. The company employs 135 people in a 50,000 square foot facility.

Tri-Point's technical know-how is complementary to that of Fluorglas Division. The latter has generally been limited to handling dispersions for substrate impregnation, and fine powders for extrusion. Through Tri-Point we have added the capability for handling granular powders for molding, shaping and machining and thus have significantly enhanced the Materials Group's overall capabilities in plastic processing.

In areas such as production, purchasing and research, both these plastics-oriented divisions will benefit from economies through coordinated activities. An example of this occurred quickly after the acquisition, when Tri-Point moved some

of its secondary machining operations to Hoosick Falls and used the freed space at Commack for improvements in production operations.

Tri-Point will continue a market diversification program it initiated before the acquisition. The program already has had positive effects, as evidenced by the fact that within three years the company has reduced its dependence on the aerospace market from 85 percent of sales to less than 50 percent of 1973 sales.

Engineered Yarns, Inc.

Coventry, Rhode Island

Engineered Yarns is 50 percent-owned by Oak. In 1973 it continued the pattern of growth it has maintained since our affiliation.

The company's business is coating synthetic yarns with various plastic materials for use in screening, braiding in wiring harnesses and automotive and outdoor furniture upholstery.

Engineered Yarns has benefited from a consistent program of new product research. Typical product developments now under way at the company include special yarn constructions with predetermined properties, such as specially coated yarns for weavers of paper felts, and specialized yarns for many commercial applications.

Outlook

Growth of the Materials Group in the past two years has been dramatic, and we expect to continue reporting dramatic progress for this group. The markets it serves have large potential; our investments in capital equipment have put these operations in excellent condition for production expansion; in-house ability to develop innovative new products has been proven, and the ability of the group management organization to provide effective guidance and control has been amply demonstrated. For these reasons we look for the Materials Group to continue its substantial contributions to Oak.



Communications Group

Communications

The Communications Group (previously designated the CATV/Security Group) had a most successful 1973. In its second year of operation sales and profitability improved substantially.

While these results certainly are satisfying, perhaps more important for the longer term is the strong position the group has secured in the emerging cable television industry.

A brief review of four objectives established for this operation when it was formed in late 1971 will highlight the progress that has been made. They were, first, develop and market a line of CATV products which through their engineering superiority would establish Oak as a leading equipment supplier to the industry; second, provide specialized CATV services; third, build a reputation for integrity, quality and innovation appropriate to a company seeking leadership in its field; fourth, establish in the European CATV market a suitable line of products and services and a leadership status.

All objectives have been met. Oak now produces the broadest line of CATV terminal equipment available from any source in the world. With our entry into the cable construction market in mid-year, we offer two services essential to industry growth—construction and financing. The image of Oak as a respected supplier to the industry has been established. In Europe, Oak Holland has solidified its position in the forefront of equipment producers.

CATV Equipment Division

Crystal Lake, Illinois

Elkhorn, Wisconsin

Madison, Wisconsin

Responsibility for development and marketing of cable television products lies with the CATV Equipment Division, headquartered in Crystal Lake.

The division entered the market two years ago with one product, the Gamut 26 converter. Since then the division has brought to market the Trimline series of AFC (automatic frequency control) varactor tuned, solid state converters in three models, the V-26 with 26-channel capacity and the V-31 and V-36 with 31 and 36 channel capacity respectively; two models of the Jewel Case AFC varactor tuned, solid state converter featuring quasi-remote tuning, the Jewel Case V-31

and the Jewel Case V-36; and the Econobloc converter, a compact unit which provides limited additional channels at low cost.

In 1974, several more new products will be added to the line, with emphasis on equipment for pay television.

As all must know who follow the cable television industry, premium television, or Pay TV, is much discussed. That some form of Pay TV will become part of the national television scene is certain. The question is when, and in what form. Progress anticipated in this area in 1973 was delayed due to such factors as record high interest rates, low stock prices and cash problems encountered by many cable system operators. Pay television systems have been started in several cities, mostly on a subscription basis. Nearly all of them use transitional equipment incorporating a modified Oak converter. But no definitive trends have been established, either as to whether Pay TV will be on a subscription basis or on a per-program basis, or as to the type of equipment to be used.

We believe in the inevitability and opportunity of premium television, and have developed four products for this market which will be introduced in 1974. Each offers unique characteristics. The Econo-Code is an economical unit for the cable operator offering limited Pay TV on a subscription basis. The Multi-Code also is intended for subscription Pay TV, but offers a great many more channels for encoding and decoding as well as providing basic converter functions. Addresso-Code will provide expanded channel capacity for Pay TV on a per-program or subscription basis. Lastly, our ESP system is designed for cable systems which not only offer premium television but provide two-way communication services.

An important characteristic of these units is their expandable modular design, which means the cable system operator can install our equipment without fear of having it obsoleted if he changes his programming basis.

Worth noting is that with Addresso-Code and ESP we are in pay cable systems. We provide the entire closed loop system including computer, software, and auxiliary equipment necessary to initiate a pay cable system. This is a marked departure from our historical role which was restricted to the terminal requirements of cable.

Communications

Introduction of prototype models of these units at a major cable television industry trade show in 1973 drew considerable attention, confirming our belief that this approach to the design of terminal equipment for Pay TV will be most beneficial to us.

Another new family of products, the Oak Galaxy Series of amplifiers, will be added in 1974. An amplifier repeatedly strengthens TV signals which are fed into the distribution system from the headend, and is essential in any cable system. We have contracted with Teleng Limited, an English firm, for manufacture of the product to Oak specifications for our exclusive distribution in the United States and Europe. Oak Galaxy Series amplifiers are of superior quality and will handsomely complement our own product line.

Myers-Oak Communications Construction Corp.

*Crystal Lake, Illinois
Chicago, Illinois*

Our entry in 1973 into the cable construction business came through formation of a joint venture operation designated Myers-Oak Communications Construction Corp. Our partner in this venture is The L. E. Meyers Company. This Chicago-based firm has more than 80 years' experience in the construction of electric utility systems and is the largest company specializing in that field. The rationale for Myers-Oak lies in the contribution which L. E. Meyers Company can make in the technical aspects of cable system construction, combined with Oak's expertise in the marketing, equipment and system engineering side of the business.

In the cable system construction business three or four large firms operate on a national scale and a host of local construction firms operate in narrow geographic areas. None of these offer the mixture of talent and experience which Myers-Oak provides.

Myers-Oak took its first breath of life in September with the signing of a contract to build up to 800 miles of cable for Hawkeye Cablevision in Des Moines, Iowa. More recently a contract has been signed with Central Plains Cable TV, Inc., Mitchell, South Dakota, for a 40 mile system, and utility make-ready was begun on a 50 mile system for Mahoning Valley Cablevision in Niles, Ohio.

The potential for this market can be seen in the fact that more than 25,000 miles of proposed cable systems are scheduled for bidding in 1974.

Heller-Oak Cable Finance Corp.

*Chicago, Illinois
Crystal Lake, Illinois*

In mid-1972 we formed Heller-Oak Cable Finance Corp., a joint venture with Walter E. Heller International Corporation, one of the world's largest business finance companies.

Heller-Oak provides financing to the cable television industry throughout the country and has quickly gained recognition as a qualified financial institution. In its first full year of operation it performed satisfactorily, even in the face of a dramatically changing money market which saw the prime rate increase seventeen times over the course of the year.

Transactions completed in the year were impressive, but high costs of funds and significant delays in construction schedules in various financed systems resulted in year-end results modestly less than anticipated. However, we ended the year with a broader base of business and with new transactions coming on the books using a new rate structure geared to meet money market fluctuations and to maintain profit margins.

Oak Holland B. V.

*Emmen, Holland
Dordrecht, Holland*

Oak Holland, which organizationally was transferred from the Components Group to the Communications Group in mid-1973, had an excellent year. Sales more than doubled, and profits improved markedly over 1972.

The major reason for the improved performance, and the reason for the organizational change, was the growing importance of the European cable television market to Oak Holland. A major part of the company's 1973 sales came from converters and other cable television equipment, and projections call for these products to account for an even larger proportion of sales in coming years.

Currently the most important products in this line are the Gamut 26E manual and AFC converters, both of which have been adapted to European markets by Oak Holland and our

Communications

research and engineering group in Dordrecht. (In Europe, technical requirements for cable television equipment vary from country to country and occasionally within regions in a single country.)

Most European television is government controlled, thus limiting opportunities for independent operators, so the growth potential for the industry is not as explosive in Europe as it is in the U. S. Even so, growth projections for television in Europe are significant enough to warrant the full-fledged production and marketing effort Oak Holland has undertaken.

In 1974, in addition to offering refinements of its two major products, Oak Holland will emphasize development of a remote control converter and a block converter similar to the Econobloc sold in the U. S. The company also will market in Europe the Oak Galaxy Series of amplifiers mentioned above.

Pay television is prohibited under existing government regulations in Europe. However, there are indications this situation might change in the next few years, particularly in non-commercial programming. If a market develops in Europe for premium television equipment, Oak Holland will have the benefit of the technology developed by the CATV Equipment Division.

A significant portion of Oak Holland's 1973 volume came from sales of locally manufactured switches and switch products, and sales of products made by other Oak divisions in the U.S. and marketed in Europe through Oak Holland. Locally manufactured products include Oak rotary switches, pushbutton switches, and Marco Presslite switches and panel lights.

Historically rotary switches have been the best sellers in this grouping, but a trend toward keyboard and pushbutton switches is developing, and Oak Holland is adjusting its manufacturing plans accordingly.

This aspect of Oak Holland's business will continue to be important, not only because of the volume generated, but also to provide potential for growth outside the cable television market.

Outlook

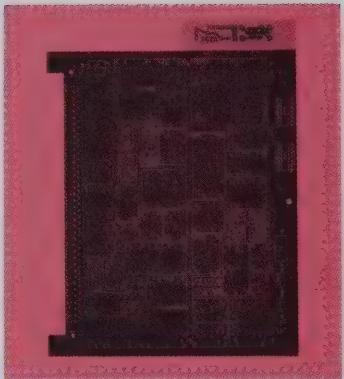
Steady and profitable growth is expected for the Communications Group. It already has a firm position in an industry that is still in its infancy in relation to its potential in the United States and Europe. In other parts of the world, cable television is still virtually unknown. Thus it can be said that the true dimensions of the cable TV market have not yet been drawn. The task of the Communications Group will be to maintain its leadership status in present markets while developing the people, products and organization required to service new markets as they open. The record already established by the group indicates it is quite capable of meeting this task.



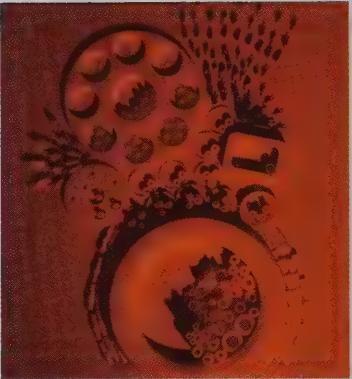
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The Materials Group produces four related groups of products. The first includes PTFE-coated fiberglass fabrics, belting made from fluorglas fabrics (1), pressure sensitive tapes, coated fiberglass yarns, extruded electrical tapes, threadseal tapes, and tank lining material (2). These products find broad use in general industry, with applications ranging from packaging machinery and food processing machinery to the plumbing and maintenance market and wire and cable industry.

The group also produces a variety of epoxy/glass laminates (3) and adhesive coated plastic films and metal foils. These are used principally in printed circuit applications.

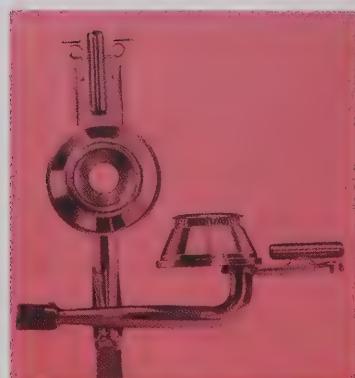
Plastic coated yarns are found in screening, braiding in wiring harnesses and automotive and outdoor furniture upholstery.

The group also manufactures extruded PTFE products, including custom-machined plastic parts (4) for the general industrial market.

The Controls Group manufactures gas range top burners (9), valves, manifolds (10) and gas oven systems; thermostats (11) and infinite heat controls (12) for electric ranges; temperature controllers, and related components.

These products are used in residential gas and electric cooking ranges, gas ranges used in recreational vehicles, gas grills, water heaters and other domestic appliances.

The group also produces valves and other components for use with LP gas tanks and cylinders.



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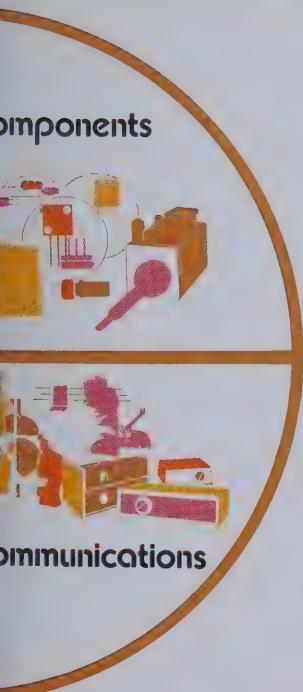
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Products of the Components Group include switches and related devices, television tuners, crystal products, illuminated products and potentiometers.

Switch products include rotary switches (5), pushbutton, keyboard and appliance switches, solenoids, vibrators and choppers, and vending controls. These are used in computers and data processing equipment, test instruments, calculators, home appliances, consumer products, industrial machinery, vending machines, military equipment, and other end products.

Television tuners (6) are produced in sizes and configurations appropriate to individual customer needs and are used predominantly in medium and large screen color and black-and-white television sets.

Crystal products include high frequency and low frequency crystals, crystal filters (7), oscillators and other devices for frequency control. Their application is in communications equipment, computers, guidance control systems, navigation systems and military equipment.

Illuminated products consist of illuminated pushbutton switches, indicator lights (8) and miniature and subminiature incandescent lamps. Applications for these products include computers and data processing equipment, communications equipment, commercial and military aircraft, office equipment, test equipment and numerical controls for industrial machinery.

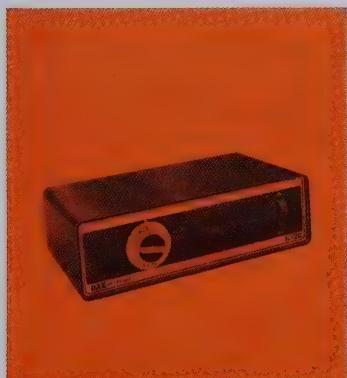
The potentiometer line includes wirewound and non-wirewound models. They are used in communications, data processing and industrial equipment.

The Communications Group provides products and services for the cable television market.

Products include a varied line of converters (13 and 14), encoding and decoding equipment, and amplifiers (15).

Services provided by the group include financing for cable television operators and engineering and construction services (16) relative to erection of cable television systems.

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Financials

DAIK Industries Inc.

CONSOLIDATED STATEMENTS OF INCOME
for Years Ended December 31, 1973 and 1972

	1973	1972
NET SALES.....	\$117,983,983	\$97,231,396
COST OF SALES.....	86,940,178	72,912,722
Gross income.....	<u>\$ 31,043,805</u>	<u>\$24,318,674</u>
SELLING, ENGINEERING AND ADMINISTRATIVE EXPENSES.....	22,326,130	19,025,336
Income from operations.....	<u>\$ 8,717,675</u>	<u>\$ 5,293,338</u>
OTHER INCOME (EXPENSE), net:		
Interest expense.....	\$ (1,284,107)	\$ (1,002,345)
Miscellaneous, net (Note 1).....	858,640	512,422
Income before income taxes and extraordinary item.....	<u>\$ (425,467)</u>	<u>\$ (489,923)</u>
PROVISION FOR INCOME TAXES (Note 6).....	\$ 8,292,208	\$ 4,803,415
Income before extraordinary item.....	<u>3,851,000</u>	<u>2,080,000</u>
EXTRAORDINARY ITEM—Utilization of net operating loss carryovers (Note 1).....	<u>\$ 4,441,208</u>	<u>\$ 2,723,415</u>
NET INCOME.....	<u>408,000</u>	<u>274,734</u>
NET INCOME PER COMMON SHARE (Note 7):		
Before extraordinary item.....	\$ 2.50	\$ 1.45
Extraordinary item.....	.25	.17
Net income.....	<u>\$ 2.75</u>	<u>\$ 1.62</u>
PRO-FORMA NET INCOME PER COMMON SHARE (Note 7): (Assuming full conversion of preferred stock, debentures and stock options)		
Before extraordinary item.....	\$ 2.21	\$ 1.35
Extraordinary item.....	.19	.13
Net income.....	<u>\$ 2.40</u>	<u>\$ 1.48</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
for Years Ended December 31, 1973 and 1972

	1973	1972
BALANCE, beginning of year.....	\$ 22,757,294	\$20,400,996
ADD (DEDUCT):		
Net income for the year.....	4,849,208	2,998,149
Cash dividends—		
Common (\$.32 per share in 1973 and \$.18 in 1972).....	(524,326)	(294,900)
Preferred (\$4.375 per share).....	(346,546)	(346,951)
BALANCE, end of year (Note 2).....	<u>\$ 26,735,630</u>	<u>\$22,757,294</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

December 31, 1973 and 1972

Assets

	1973	1972
CURRENT ASSETS:		
Cash and marketable securities, at cost.....	\$ 1,309,795	\$ 2,084,076
Receivables, less reserve of \$882,000 in 1973 and \$453,000 in 1972.....	22,256,110	17,142,925
Inventories, at the lower of cost or market.....	26,033,244	19,528,824
Total current assets.....	<u>\$49,599,149</u>	<u>\$38,755,825</u>
 PLANT AND EQUIPMENT, at cost:		
Land.....	\$ 1,030,432	\$ 1,348,517
Buildings.....	13,618,345	12,964,190
Machinery and equipment.....	25,435,487	22,287,758
Less—Accumulated depreciation.....	<u>\$40,084,264</u>	<u>\$36,600,465</u>
	18,794,845	18,224,818
	<u>\$21,289,419</u>	<u>\$18,375,647</u>
 OTHER ASSETS:		
Notes receivable and prepaid expenses.....	\$ 2,457,682	\$ 2,478,286
Investments in affiliated companies.....	1,639,610	935,412
Patents and debenture expense, less amortization.....	233,114	265,334
	<u>\$ 4,330,406</u>	<u>\$ 3,679,032</u>
	<u>\$75,218,974</u>	<u>\$60,810,504</u>

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

Liabilities

CURRENT LIABILITIES:

Notes payable to banks (Note 2)	\$11,491,268
Current portion of long-term debt	547,313
Accounts payable and accrued expenses	13,907,909
Accrued income taxes	1,334,246
Total current liabilities	<u>\$27,280,736</u>

1973	1972
\$ 5,385,133	
543,897	
10,167,121	
455,433	
<u>\$16,551,584</u>	

OTHER LIABILITIES:

Deferred income taxes	\$ 526,000
Accrued pensions and deferred compensation (Note 5)	1,613,632
Minority interest in consolidated subsidiaries	514,203
	<u>\$ 2,653,835</u>

\$ 470,000	
1,414,680	
536,877	
<u>\$ 2,421,557</u>	

LONG-TERM DEBT, less amounts due within one year:

4 3/8% subordinated convertible debentures (Note 2)	\$10,000,000
5% note payable (Note 2)	4,100,000
Notes payable of subsidiaries, payable in variable annual amounts to 1986	535,170
	<u>\$14,635,170</u>

\$10,000,000	
4,500,000	
666,462	
<u>\$15,166,462</u>	

SHAREHOLDERS' INVESTMENT (Notes 2, 3 and 4):

Cumulative convertible preferred stock, \$5 stated value, authorized 398,047 shares, issued 79,203 shares in 1973 and 79,213 shares in 1972 (liquidating preference \$7,920,300 in 1973)	\$ 396,015
Common stock, \$1 par value, authorized 4,000,000 shares, issued 1,684,063 shares in 1973 and 1972	1,684,063
Paid-in surplus	1,974,281
Retained earnings	26,735,630
Less—Treasury stock, at cost (45,527 common shares in 1973 and 45,550 in 1972)	(140,756)
	<u>\$30,649,233</u>

\$ 396,065	
1,684,063	
1,974,821	
22,757,294	
<u>(141,342)</u>	
<u>\$26,670,901</u>	
<u>\$75,218,974</u>	

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
 for Years Ended December 31, 1973 and 1972

	1973	1972
SOURCES OF FUNDS:		
From operations—		
Income before extraordinary item.....	\$ 4,441,208	\$ 2,723,415
Depreciation and amortization.....	3,328,920	2,846,875
Increase in deferred income taxes.....	56,000	186,000
Increase in accrued pensions and deferred compensation.....	198,952	87,779
Increase (decrease) in minority interest in consolidated subsidiaries.....	(22,674)	71,923
Total from operations before extraordinary item.....	\$ 8,002,406	\$ 5,915,992
Extraordinary item (Note 1).....	408,000	274,734
Sales and retirements of plant and equipment.....	1,735,799	176,420
Total sources of funds.....	<u>\$ 10,146,205</u>	<u>\$ 6,367,146</u>
USES OF FUNDS:		
Additions to plant and equipment—		
Capital expenditures.....	\$ 6,826,271	\$ 3,902,329
Acquisitions and new ventures (Note 8).....	1,120,000	1,075,109
Cash dividends—		
Common.....	524,326	294,900
Preferred.....	346,546	346,951
Reduction in long-term debt, net.....	531,292	442,697
Increase in investments in affiliated companies.....	704,198	328,546
Other.....	(20,600)	492,457
Total uses of funds.....	<u>\$ 10,032,033</u>	<u>\$ 6,882,989</u>
INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 114,172</u>	<u>\$ (515,843)</u>
WORKING CAPITAL AT BEGINNING OF YEAR	<u>22,204,241</u>	<u>22,720,084</u>
WORKING CAPITAL AT END OF YEAR	<u>\$ 22,318,413</u>	<u>\$ 22,204,241</u>
CHANGES IN WORKING CAPITAL:		
Current assets—increase (decrease) —		
Cash and marketable securities.....	\$ (774,281)	\$ (595,027)
Receivables.....	5,113,185	2,045,113
Inventories.....	6,504,420	(357,416)
	<u>\$ 10,843,324</u>	<u>\$ 1,092,670</u>
Current liabilities—(increase) decrease—		
Notes payable to banks.....	\$ (6,106,135)	\$ 446,546
Current portion of long-term debt.....	(3,416)	24,891
Accounts payable and accrued expenses.....	(3,740,788)	(2,476,478)
Accrued income taxes.....	(878,813)	396,528
	<u>\$ (10,729,152)</u>	<u>\$ (1,608,513)</u>
Increase (decrease) in working capital.....	<u>\$ 114,172</u>	<u>\$ (515,843)</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1973 and 1972

(1) Statement of Accounting Policies:

Following are the significant financial and accounting policies followed by the Company:

Principles of consolidation—The consolidated financial statements include the accounts of the Company and all of its subsidiaries. All significant transactions between the Company and all of its subsidiaries are eliminated. Investments in affiliated companies are recorded at cost plus equity in undistributed earnings. The Company's share of these affiliates' earnings (\$381,000 in 1973, and \$278,000 in 1972) is included in the consolidated statements of income as miscellaneous income.

Translation of foreign currencies—Assets and liabilities of foreign subsidiaries are translated at year-end rates, except that plant and equipment (and related depreciation), capital stock and surplus are translated at historical rates. Income and expense accounts, other than depreciation, are translated at current rates in effect during the year. The net gains on translation of foreign currencies to U. S. dollars are deferred. In 1973, this deferral was \$61,000, and is included in the accompanying consolidated balance sheets.

In accordance with Opinion No. 30 of the Accounting Principles Board, the loss on devaluation of United Kingdom currency less gain on a hedge contract of \$73,222 (\$.05 per share) which was reflected as an extraordinary item in 1972, has been reclassified as miscellaneous, net, in the accompanying consolidated statements of income.

Inventories—Inventories are valued at the lower of cost (first-in, first-out basis) or market.

Depreciation—Depreciation on buildings is generally provided on the straight-line method for accounting purposes and, at certain locations, on the declining-balance method for income tax purposes. Depreciation of all other property is provided over the estimated useful lives principally on accelerated methods for both accounting and income tax purposes.

Upon sale or retirement of depreciable properties, the related cost and accumulated depreciation are removed from the accounts. All gains or losses on sale or retirement of property are reflected in income.

Income taxes—Deferred income taxes are provided to recognize the results of using different methods of depreciation for book and income tax purposes and to provide for domestic taxes on undistributed foreign earnings. Deferred income taxes are reduced by future tax benefits resulting from timing differences of tax deductions.

Deferred income taxes are not provided on the deferred portion of the income of a Domestic International Sales Corporation as it is the Company's intention to reinvest these earnings in export operations.

Investment tax credits (\$225,000 in 1973, and \$142,000 in 1972) are applied as a reduction of the provision for income taxes in the year in which the related credits arise.

Research and development—Expenses relating to research and development activities are charged to income as incurred.

(2) Indebtedness:

The 4% subordinated convertible debentures are due \$1,000,000 annually commencing March 1, 1978. The debentures are convertible at any time prior to maturity, unless previously redeemed, into common stock of the Company. The current conversion price is \$34.67 per share and is subject to adjustment in certain events. The 5% note payable is due \$400,000 annually through 1983 and \$500,000 in 1984. These debt agreements provide certain restrictions upon the payment of cash dividends and the purchase or redemption of any class of stock. At December 31, 1973, \$13,681,000 of consolidated retained earnings was not subject to these restrictions.

Maturities of long-term debt are as follows: 1974—\$547,000, 1975—\$560,000, 1976—\$493,000, 1977—\$466,000 and 1978—\$1,427,000.

At December 31, 1973, the notes payable to banks are principally short-term financing arrangements with interest at prime rate (9.9% at year-end). These agreements provide for an aggregate total commitment for borrowings by the Company of \$15,000,000. During 1973 the maximum borrowing under these agreements was \$11,491,000, with the average borrowing for the year being \$8,520,000 at an approximate average interest rate of 9.0%. These agreements also pro-

vide that the payment of cash dividends and the purchase or redemption of any class of stock may not exceed \$2,500,000 in any one year on a noncumulative basis.

The Company does not have any formal or informal compensating balance arrangements.

(3) Cumulative Convertible Preferred Stock:

Dividends on the preferred stock are cumulative at \$4.375 per share. Preferred shares are callable at \$100 per share at the option of the Company. Based upon shares outstanding at December 31, 1973, the total call price would be \$7,920,300. Each share of preferred stock is entitled to 1/2 vote. Preferred shares (10 shares in 1973 and 180 shares in 1972) were converted into common shares (23 shares in 1973 and 400 shares in 1972). Changes in paid-in surplus in 1973 and 1972 resulted from these conversions.

(4) Common Stock Reserved:

As of December 31, common stock is reserved for issuance as follows:

	1973	1972
Stock options for officers and key employees	60,000	60,000
Conversion of 4 3/4% subordinated convertible debentures (Note 2)	288,434	288,434
Conversion of cumulative convertible preferred stock (Note 3)	182,576	182,599
	<u>531,010</u>	<u>531,033</u>

During 1973, no options to purchase shares were granted and no options were exercised. Options to purchase 100 shares expired. As of December 31, 1973, options to purchase 35,125 shares at prices ranging from \$9.625 to \$16.75 per share were outstanding.

(5) Accrued Pensions:

The Company has pension plans which cover substantially all employees. Obligations under the plans are funded on a level cost basis using group annuity contracts with an insurance company. Pension expense was \$1,100,000 in 1973, and \$661,000 in 1972. The increase in pension expense in 1973 results from an increase in benefits and employees covered. The total value of fund assets exceed the actuarially computed value of vested benefits for all plans as of December 31, 1973.

(6) Income Tax Expense:

Income tax expense for 1973 consists of the following (000 omitted):

	U.S. Federal	Foreign	State and Local	Total
Current	<u>\$1,762</u>	<u>\$1,677</u>	<u>\$356</u>	<u>\$3,795</u>
Deferred	45	11	—	56
	<u>\$1,807</u>	<u>\$1,688</u>	<u>\$356</u>	<u>\$3,851</u>

The 1973 provision for income tax of \$3,851,000, before extraordinary item, represents an effective tax rate of 46.4%. The following display illustrates why this is below the standard U.S. Tax rate of 48% which, if applied, would have resulted in a provision for income tax of \$3,980,000: (000 omitted)

	Amount	Percent
Computed standard tax provision	\$3,980	48.0
Increase (decrease) in tax provision resulting from—		
Losses of foreign subsidiaries not tax benefited	246	3.0
Investment tax credit	(225)	(2.7)
Other	(150)	(1.9)
Provision for income taxes before extraordinary item	<u>\$3,851</u>	<u>46.4</u>

It is anticipated that the cash outlay for income taxes with respect to the years 1974 through 1976 will not substantially exceed income tax expense for these years.

(7) Net Income Per Share of Common Stock:

Net income (\$2.75 in 1973 and \$1.62 in 1972) per common share is based upon the average number of common shares outstanding each year (1,638,523 in 1973 and 1,638,346 in 1972), after recognition of a full year's dividend requirements on the preferred shares.

Pro-forma net income per common share for 1973 restates earnings assuming the debentures and preferred stock were converted and the stock options exercised at the beginning of the year. Net income is adjusted for the interest on the debentures, net of its tax effect and preferred dividends. The exercise of stock options has been reduced by the number of common shares which have been assumed to have been purchased with the proceeds from the exercise of these options.

(8) Acquisitions and Dispositions:

During the year the Company made two acquisitions which have been accounted for as purchases. The total cost of these acquisitions was approximately \$1,900,000, and the results of operations of these acquisitions, which are immaterial, have been included in the accompanying consolidated statements of income from the dates of acquisition.

In 1973 the Company sold certain relay assets and the non-equipment portions of the security and protection operations at amounts approximating net book value. Results of these operations, which are immaterial, have been included in the accompanying consolidated statements of income for 1973 to the dates of disposition.

(9) Heller-Oak Cable Finance Corp.:

At December 31, 1973, this 50% owned affiliate, operating as a CATV finance company, had total assets of \$7,075,000 consisting principally of secured receivables for the construction of cable television facilities and had loans of \$6,351,000 from financial institutions.

(10) Long-Term Leases:

The Company had no significant long-term leases including noncapitalized financing leases.

To the Shareholders and the
Board of Directors of
OAK INDUSTRIES INC.:

We have examined the consolidated balance sheets of OAK INDUSTRIES INC. (a Delaware corporation) AND SUBSIDIARIES as of December 31, 1973 and 1972, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of OAK INDUSTRIES INC. AND SUBSIDIARIES as of December 31, 1973 and 1972, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

ARTHUR ANDERSEN & CO.

Chicago, Illinois
February 15, 1974

Ten Year Review

	1973	1972	1971
OPERATIONAL RESULTS			
Net Sales.....	\$117,983,983	\$97,231,396	\$83,668,264
Income Taxes.....	3,851,000	2,080,000	1,328,000
Net Income.....	4,849,208	2,998,149	1,415,797
Net Income per Common Share (1).....	\$2.75	\$1.62	\$.65
Cash Dividends—Common.....	\$ 524,326	\$ 294,900	\$ 261,922
Cash Dividends per Common Share.....	\$.32	\$.18	\$.16
FINANCIAL POSITION			
Current Assets.....	\$ 49,599,149	\$38,755,825	\$37,663,155
Current Liabilities.....	27,280,736	16,551,584	14,943,071
Current Ratio.....	1.8	2.3	2.5
Working Capital.....	\$ 22,318,413	\$22,204,241	\$22,720,084
Property, Plant and Equipment (Net).....	21,289,419	18,375,647	16,387,726
Total Assets.....	75,218,974	60,810,504	56,942,688
Long-Term Debt.....	14,635,170	15,166,462	15,609,159
Earnings Reinvested in the Business.....	3,978,336	2,356,298	803,515
Shareholders' Investment.....	30,649,233	26,670,901	24,314,603
GENERAL STATISTICS			
Return on Shareholders' Investment—Beginning.....	18.18%	12.33%	6.02%
Capital Expenditures (excluding acquisitions).....	\$ 6,826,271	\$ 3,902,329	\$ 3,342,315
Depreciation and Amortization.....	3,328,920	2,846,875	2,808,179
Cash Flow from Operations.....	8,002,406	5,915,992	4,474,102
Cash Flow per Common Share.....	\$4.88	\$3.61	\$2.73
Common Shares Outstanding—Average.....	1,638,523	1,638,346	1,636,940
Number of Shareholders.....	4,543	4,490	4,979
Number of Employees (at year end).....	9,584	8,455	7,837
Salaries and Wages.....	\$ 42,900,047	\$37,366,301	\$29,916,094
Common Stock Price Range.....	20½-9½	21¾-9½	13½-6½

(1) After retroactive reflection of dividends on Preferred Shares issued for acquisitions which are treated as poolings of interests. Where applicable and significant, figures reflect poolings-of-interests treatments of acquired companies.

1970	1969	1968	1967	1966	1965	1964
\$75,056,484	\$85,629,695	\$90,016,440	\$92,301,256	\$88,011,587	\$73,532,346	\$63,696,801
(555,000)	1,651,000	1,746,000	2,145,000	2,986,800	2,337,791	2,127,106
(448,849)	1,558,635	1,481,934	2,321,998	3,031,245	2,607,347	2,087,582
(\$.49)	\$.74	\$.69	\$1.26	\$1.72	\$1.49	\$1.15
\$ 523,915	\$ 969,962	\$ 727,581	\$ 684,144	\$ 530,497	\$ 371,047	\$ 269,705
\$.32	\$.64	\$.64	\$.64	\$.51	\$.36	\$.26
\$34,294,123	\$37,888,209	\$38,063,074	\$36,667,992	\$36,933,319	\$24,300,288	\$19,647,416
11,769,225	12,989,078	12,903,323	11,171,599	21,841,784	11,163,620	7,522,912
2.9	2.9	2.9	3.3	1.7	2.2	2.6
\$22,524,898	\$24,899,131	\$25,159,751	\$25,496,393	\$15,091,535	\$13,136,668	\$12,124,504
16,128,833	17,212,467	17,171,792	16,589,598	15,595,624	13,695,736	11,945,772
53,120,436	56,740,263	56,975,880	54,879,653	53,767,987	38,826,901	32,513,972
16,002,928	17,128,399	17,873,515	18,477,289	8,398,046	7,124,605	6,777,202
(1,324,324)	217,117	380,893	1,477,844	2,442,748	2,112,710	1,735,173
23,522,554	24,847,091	24,617,626	23,860,437	22,145,459	19,420,683	17,278,677
(1.81%)	6.33%	6.21%	10.49%	15.61%	15.09%	13.43%
\$ 3,227,535	\$ 3,254,809	\$ 3,198,944	\$ 3,587,275	\$ 4,324,787	\$ 2,729,990	\$ 3,084,742
2,850,900	2,936,724	2,983,735	2,636,373	2,455,457	2,093,473	1,803,241
2,402,051	4,495,359	4,465,669	4,958,371	5,486,702	4,700,820	3,890,823
\$1.47	\$2.75	\$2.73	\$3.16	\$3.53	\$3.05	\$2.53
1,637,204	1,636,523	1,633,735	1,567,747	1,555,755	1,539,695	1,538,683
5,335	5,104	4,494	4,385	4,131	3,981	3,923
6,512	7,312	8,998	8,315	9,492	7,812	6,958
\$28,271,524	\$30,820,496	\$34,081,799	\$33,398,262	\$32,039,791	\$26,460,267	\$24,404,807
13% ₈ -5% ₂	29% ₂ -10% ₈	38% ₈ -22% ₄	48% ₄ -18% ₈	30% ₈ -17	20% ₈ -10% ₈	14% ₈ -9% ₂

Where applicable, common share data adjusted to reflect 50% stock distribution made on August 12, 1966.



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(Seated, left to right)

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University of Wisconsin*

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Chairman, Executive Committee

Everitt A. Carter
Chairman of the Board

Frank A. Astrologes
President

Luther W. McCoy
President, McCoy Electronics Company

John E. Drick
President, The First National Bank of Chicago

(Standing, left to right)

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*Group Vice President,
Communications*

Philip S. Harper, Jr.
*Group Vice President,
Controls*

Raymond W. Peirce
*Group Vice President,
Materials*

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R. Douglas Wilber
Treasurer

Edwin C. Wolf
Secretary

Helen O'Connell
Assistant Secretary

CORPORATE DATA: General Offices: Crystal Lake, Illinois; The Annual Meeting of the Corporation will be held at its general offices in Crystal Lake, Illinois, at 10:00 A.M., May 3, 1974; Stock Transfer Agents and Registrars: The First National Bank of Chicago, Chicago, Illinois and First National City Bank, New York, New York; Trustee Under the Debentures: The Northern Trust Company, Chicago, Illinois and First National City Bank, New York, New York (New York Authenticating Agent); Stock Exchanges: New York Stock Exchange and Midwest Stock Exchange.

